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REORGANIZATION OF ENTERPRISES IN KEY POLISH INDUSTRIES

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An industrial enterprise in socialized economy is a basic, integrated, and completely autonomous organization, performing definite economic functions which are intimately geared to the entire economic apparatus of the state, organized and operated according to plan. The task assigned to the factory stems from the over-all state plan, which binds the supply, demand, and services of one plant with those of another. This mutual interdependence of various plants necessitates a corresponding organization of planned cooperation.

The organization of state industrial factories is to be based on the following: (1) the structural form [i.e., number of components] of the factory, (2) its internal departmental system, and (3) principles of operation for the whole and for all constituent parts.

Polish planned economy has constantly progressed toward simplification and improvements. Recent weeks have seen the enactment of a series of acts to standardize the organization of factories and of industry as a whole.

Status up to Present

Among the regulatory acts of the postwar period, only one decree was enacted (3 January 1947) pertaining to the creation of state enterprises and establishing definite rules for the organization of enterprises. The decree was of a general nature and has not been entirely realized to date. Although the decree provides for certain structural forms for enterprises, central administrations, and associations, it does not provide a satisfactory structure for the enterprise or its subdivisions. As for internal organization, the decree sets up boards of directors and supervisory councils as the factory authorities. The supervisory councils have not yet made their appearance, since they have not yet been set up by a decree of the Council of Ministers.

Organization of the enterprise was often the result of arbitrary concepts of individual central administrations. This created an organizational mosaic throughout industry, tending toward the integration of plants into larger organizations.

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As for the internal organization of an enterprise, its departments and functions were set up to meet tasks assigned from above or undertaken at the lower level, thus creating certain general types of departments on all levels of organization to handle planning, procurement, and finance. These rather haphazard organizations resulted in bureaucracy and division of authority.

In 1948, the Ministry of Industry and Trade issued, but did not officially publish, Zasady Organizacji Centralnych Zarzadow Przemyslu (Principles of Organization of the Central Administrations of Industry), which regulated only the internal structure of the central administrations and associations. It introduced a uniform organizational chart and added coordinating, organizing, and analytical departments to the existing cumbersome, ~~overstaffed~~, and functionally diverse management apparatus.

Simultaneously, the Ministry of Industry and Trade developed model organizational charts for the factories, but without explanatory comment. Though they clearly outline the internal organization, they permit discretionary adoption of either the multiplant or single-plant setup. These organizational charts have not yet been put into effect in the majority of the plants.

KERM Decree of 12 May 1950

The decree of the KERM (Komitet Ekonomiczny Rady Ministrow, Economic Committee of the Council of Ministers), in preparation since November 1949, was adopted 12 May 1950. It dealt with the organization of socialized enterprises in key industries, as well as central administrations and associations, and was the most important basic regulatory act in the field of industrial organization. The decree not only laid down the principles for external and internal organization of enterprises, but recognized the principles of socialist economics as the prerequisite of practical organization.

The realization of these principles, necessitating a major reorganization of all branches of production, is a large undertaking for the industrial organizers in the near future, since the reorganization will affect every department and worker. The decree regulates the (1) structural form of the enterprise, (2) internal organization of the enterprise, and (3) the function of the organization within the over-all state economy.

Industrial Organization

In the beginning there were six echelons in the industrial organization: ministry, central administration, board of directors for a branch of industry, association, enterprise consisting of several plants, and factory. Transition to the present four- or three-echelon system (ministry, central administration, association, enterprise) took place in a sporadic manner. The multidivision order of command limited the role of the individual plant to technical fulfillment of the production plan. The plant was a headless, dependent organism, centrally supplied, centrally marketing its produce, and centrally managed by numerous poorly coordinated centers. This arrangement stifled the independence and sense of responsibility of the plant management, and hindered production initiative among the workers.

The law on the reorganization of the services of supply, which aimed at direct coordination between the producing plant and its sources of supply; the law on the organization of the financial system, giving full financial independence to the plant; and the law on planned agreements -- all prepared the plants for economic independence. The law of 12 May 1950 gave the plants organizational autonomy and presaged the granting of legal autonomy. On the principle that the single plant is the basic organizational unit in key industries, multiplant enterprises are gradually being liquidated.

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In the new system, the industrial structure will have three echelons of organization: the ministry, the central administration, and the enterprise. Organizational improvement calls for a specific limitation of the administrative functions of the industrial ministry and the central administration, and for establishing a proper division of administrative functions as follows:

1. Ministry -- General supervisory functions, the regulation and organization of the industry
2. Central Administration -- General management, the coordination and control of the branches of industry
3. Enterprise -- Production and management of physical and financial resources

Since the present industrial structure differs greatly from the proposed organization, reorganization must insure that the newly organized factories are capable of independent management. Reorganization must also proceed without disturbing the production equilibrium in industry as a whole. This poses a problem for industries composed of many small, scattered, and distant plants with heterogeneous equipment and an incomplete production cycle.

The selection of a suitable structural form for the new factories must be given careful thought by the managements of central administrations. The decree setting up the single plant as the ideal indicates certain exceptions, but these are not clearly specified. Practical considerations also force the adoption of other criteria for multiplant factories. Thus, the decree provides for the following: (1) single-plant factories, (2) multiplant factories, and (3) administrative associations, subordinated to the central administration. The decree stipulates that the second and third forms may be adopted only if they are deemed necessary by the responsible minister, with the approval of the chairman of the State Economic Planning Commission.

According to the decree, multiplant factories may be set up by merging small plants in close proximity. The decree does not define close proximity. The size and distribution of plants must be considered because of the inefficiency of setting up separate managements for small plants. Separate managements, which require an excessively large administrative machine in proportion to the job done, may be replaced by a single, common management, when local conditions permit. The distance between plants should allow swift and adequate contact between the subsidiary and the central factory. Transportation facilities and telephone connections must be considered.

An administrative association, directly under the central administration, is justified in the case of very small and scattered plants of the same branch of industry. An association of this type has a strictly supervisory and coordinating character. It is also concerned with the general management of the factory. It does not take part in operation.

In case it is not possible to form single independent plants, the second best is the multiplant enterprise. If such a form is not feasible, the administrative association may be used. Plant size and distance are the criteria. Widely dispersed plants may be grouped into associations, while maintaining operating autonomy. It is permissible to merge small plants which are in close proximity into multiplant enterprises, or to exclude large plants from the associations and place them immediately under the central administration on a par with the association.

There are various merger possibilities. Two or more neighboring plants of like production may be merged into a multidivisional or multidivisional single-plant enterprise under the central administration or association. A merger of two plants in the same line of production would be indicated by the possibility of joint management with the smallest possible administrative setup and the possibility of benefiting from common technical experience.

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Two or more plants in close proximity, which supplement one another in the production cycle, may be joined into factories composed of several production departments. Because some industries possess plants with incomplete production cycles, these proximate plants should be joined to create a factory which covers all phases of production.

There is also the possibility of attaching a small plant to a nearby large plant of the same industrial branch. Thus a multidivision factory is formed. Such a union would effect administrative economy.

Adapting New Forms to Various Types of Enterprises

The application of the new principles of organization will be simpler in the case of production enterprises than in service enterprises.

Service enterprises such as construction, repair, installation, prospecting, etc., possess no definite operational locale. They have no permanent work premises or labor force. In essence, the principles of the decree declare that service enterprises of a limited range should take the form of a multiplant enterprise (if they possess divisions throughout a certain area), while enterprises with divisions dispersed throughout Poland should possess the character of administrative associations. Service enterprises such as engineering offices, testing bureaus, laboratories, and construction offices may be either of the single-plant enterprise type, or branches of the central administration operating on their own budget.

The decree does not clearly cover commercial enterprises such as purchasing, marketing, or special central offices. This problem will probably be the subject of separate regulatory laws.

Method of Realizing New Principles of Organization

The basic aim of the decree of the Economic Committee of the Council of Ministers on the creation of single-plant factories is to improve efficiency by turning over all management to one director, who is to have direct control over all activities on the premises of the plant. The management of plants which are a considerable distance apart is more difficult, very complicated, and less efficient. In the case of plants which are very great distances apart, the ideal is complete independence for the separate plants.

The full realization of these principles, however, would subordinate many new units to the immediate supervision of the central administration. There is some fear that this will complicate the work of the central administrations. However, direct contact between the central administration and the plant permits deep penetration of the management into production. There is a decided improvement in efficiency as problems are grasped at their source.

The principal practical difficulty, though temporary, is the problem of providing trained personnel for the newly independent factories. In centers which command sufficient numbers of professional workers, or in centers in which local conditions are conducive to importing the needed personnel from other regions, the transition to the new organizational structure will not be difficult. However, in smaller localities, far from centers of economic activity, personnel difficulties may delay the introduction of the new system.

The final structural form of the factory should depend on specific technological, economic, and local conditions. There is no rigid standard which can be applied universally. Each branch of industry must create its own practical criteria to fit the conditions of the area.

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We may list the following as determining the proper structural form for a factory: (1) optimum number and size of plants in a multiplant factory, (2) advantages of merger, (3) coordination of machine installations of the factory, (4) uniformity of technological processes, (5) location of plants with regard to factory management, (6) local transportation conditions, (7) internal transport efficiency, (8) economies in management of material and financial resources, (9) ability to support a separate administrative apparatus with profit, and (10) the possibility of efficient management for the entire enterprise in its optimum dimensions.

With the above-mentioned criteria in mind, the managements of various industries should consider the feasibility of complete autonomy for the enterprise. In branches of industry composed of plants with a closed production cycle, such a program can be pushed strenuously.

In industries having several technological sequences, with a great number of plants specializing in only one phase of the process, the organizer must decide whether to set up only single-plant enterprises, or to merge plants into multi-plant enterprises. In the case of the latter, a decision must be made as to whether mergers are to take place according to vertical or horizontal industrial organization. Horizontal organization, i.e., grouping factories specializing in the same narrow field, permits concentration of skill and economies stemming from mass production. Vertical organization, however, permits better quality control and coordination between stages of production, but specialization and mass production are made difficult. Experience has shown that the first system is suited to some industries, while the second is suited to others.

The following stages may be applied in reorganization:

1. Gradual segregation of larger plants from the associations, and retention of the form of the multiplant factory for the smaller plants until their reorganization is fully realized.
2. Separation of several small plants from an enterprise and a temporary merger of their administration with that of a larger, better organized plant.
3. Gradual subdivision of scattered multiplant factories into groups spread over smaller areas.
4. If the only difficulty in reorganization is the absence of a bookkeeper, separate accounts should be kept for the individual plants by the factory's central office, so that the plants can be made completely independent at a moment's notice.

These transition forms apply only in cases which require a relatively long time for the realization of the ultimate structural form of the enterprise.

During reorganization, the principal difficulty will be the retention of the central administration apparatus while the administrative machinery is being set up for the smaller independent units. In reorganization, central managements may: (a) undergo total liquidation, (b) divide the workers among independent units, or (c) be reorganized as a management for one of the separate factories.

New Industrial Enterprise

The regulatory acts issued during recent months define the individual state enterprise as the lowest independent planning unit, with the following characteristics:

1. Enjoys full autonomy of operations in carrying out the tasks stemming from the economic plans.

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2. Enters into agreements with other factories and organizations as required for the execution of its tasks.

3. Enters into agreements and carries on separate activities covering purchasing and marketing.

4. Maintains a complete accounting system and draws up separate, complete balance sheets and statements.

5. Possesses independent bank accounts for investment and working capital.

6. Is the direct beneficiary of resources provided by the investment plan.

7. Settles accounts directly with the state budget.

8. Is subject to the control of one director, who is fully responsible for the management of the entire enterprise.

9. Is subject to the immediate supervision of the director of the central administration or of the association.

With its legal guarantee of full autonomy, the enterprise comprises a small part of a large organism. Regulations governing the whole organism also govern its member parts. The creation of new independent enterprises must be consistent with the general economic structure of the country.

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